



DIGITAL ACCELERATION

What does it take?

Report conducted by Microsoft and Heidrick & Struggles

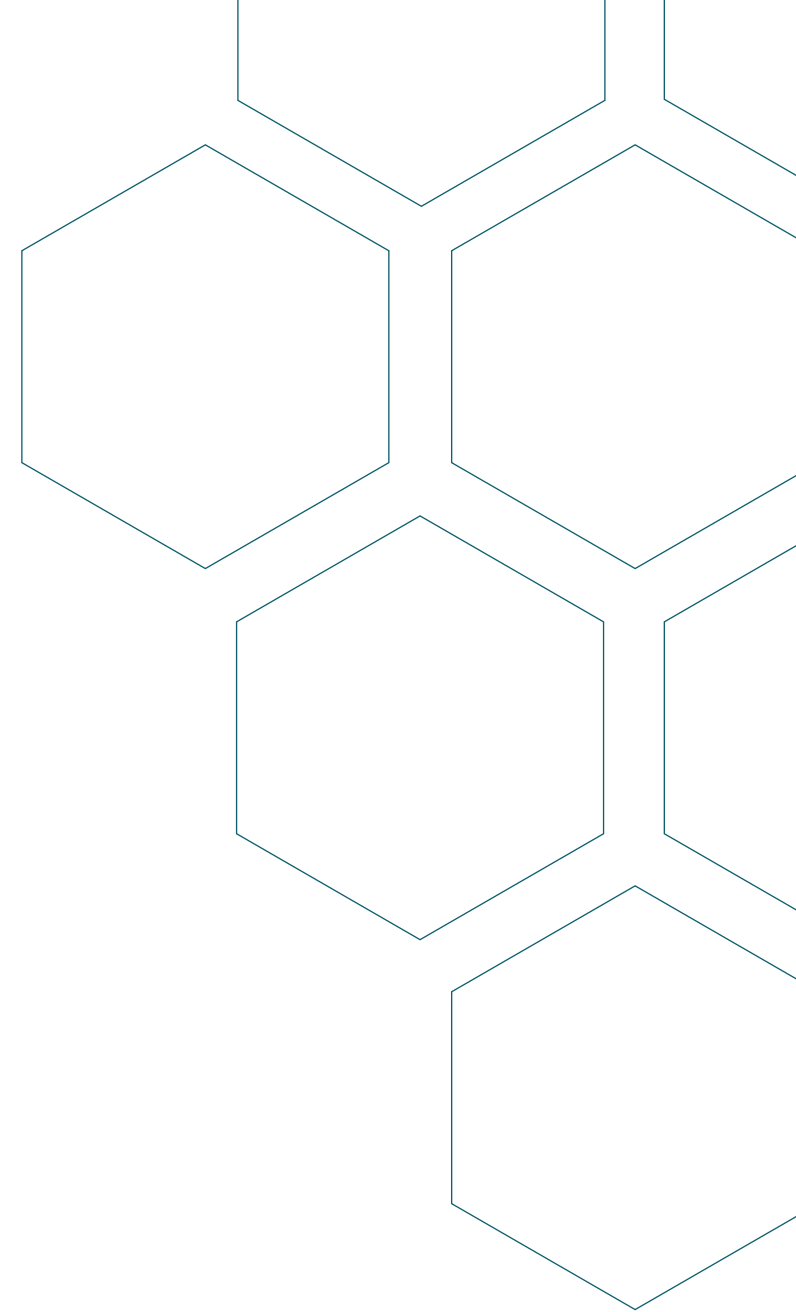
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Digital is not something that one person does or is responsible for. It must be the backbone of what everyone does.

Klaus Hulse,
CEO, SimCorp



SUMMARY: BEWARE OF THE DIGITAL VACUUM

Digital success is not measured in terms of doing digital. Digital success has to do with being digital to the core. In turn, it has as much to do with culture as it does with technology, and it requires a combination of technological savvy, strategic thinking and organizational effectiveness to foster successful digital transformations.

Settling on the proper organizational structure for one's digital endeavors is an ever more complicated task. And what works seems to differ from organization to organization. There is no blueprint. Nevertheless, it is our experience that some structures work better than others, and that what works well often has to do with defining factors in the organization such as leadership, talent, culture and organizational alignment. They represent the human elements of going digital, and they form an organization's digital maturity.

To better understand the questions companies must address when going digital, we decided to seek out experiences and learnings from top Chief Executive Officers, Chief Digital Officers as well as chairmen representing 10 of the largest companies in Denmark. They all have firsthand experience with setting a digital agenda and driving the

transformation within each of their organizations. Our guiding question was this:
Digital acceleration - what does it take?

While our interviews proved that factors such as a high level of CEO-involvement and a solid customer-focus are prerequisites for all organizations, they also pinpointed that, depending on the level of digital maturity in the organization, the recipe for success will look different.

Companies that are just getting started often need an evangelist and a hub set up to get the transformation going whereas companies that are digitally advancing and accelerating benefit more from the integration and standardization of digital efforts across the organization. In between the two levels is an important intermediate position - the vacuum. The decisions that the CEO and chairman make at that stage are crucial for further success.

The digital acceleration journey can best be described as one of maturity. Starting out, you need a clear digital strategy, but, over time, digital priorities and focus points will be part of the overall business strategy as digital is integrated into the core business.

IS THE CHIEF DIGITAL OFFICER DEAD?

Not necessarily. But too many organizations seem to view the CDO as a quick fix to digital transformation. That is a misunderstanding. Hiring the CDO might work. But before deciding on the organizational structure and which profile(s) to look for, the crucial question that any CEO must ask is this: How digitally mature are we as an organization? And why do we want to be digital?

By making sure you start with the right questions, instead of simply assuming that a CDO is the answer, you are more likely to put yourself on a path towards digital success - one that is not measured in terms of doing digital but in terms of being digital. Above all it has to do with cultural change.

WHAT DID WE DO AND WHO DID WE TALK TO?

In our daily work we find that the discussion about how to accelerate digitally is ever more present. Organizations and companies increasingly need to assess and plan how to integrate new technologies and digital services into their core businesses. The question, however, is how?

In combination with the insights gained from our day to day interactions with top level executives in Denmark as well as the international research done by Heidrick & Struggles into the area of digital leadership and acceleration, we set out to investigate the link between the organizational maturity and anchoring to accelerate digital. The global perspective is derived from extensive research carried out among international companies in the US and Europe, who have all been on a digital journey.

UNDERSTANDING DO'S AND DON'TS

In order to better understand do's and don'ts, we set up 10 interviews with top executives in companies in Denmark to learn from their experiences with setting digital agendas and driving digital transformations in their organizations.

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UNDERSTANDING DIGITAL ACCELERATION

In order to decide on the organizational set up that will foster digital acceleration, you must understand your organization's level of digital maturity. Digital maturity has to do with much more than the sort of technologies and digital services integrated into or offered by the organization. In fact, it first and foremost has to do with the human elements of digital that is leadership, talent, culture and organizational alignment.

Our framework for understanding the links between digital acceleration and digital maturity is outlined in the figure on page 6. Our figure takes its point of departure in existing research done by Heidrick Consulting, which defines five stages of digital acceleration¹. Based on our research and interviews, we have found that (at least in a Danish context) the five stages translate into three stages of maturity – each with its own characterizing traits.

On the following pages, we will assess each stage to understand what sort of organizational structures that work when as well as which tasks that must be prioritized and by whom.

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You need a highly involved CEO that communicates the change both internally and externally.

Pernille Erenbjerg,
former CEO, TDC

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A strong starting point for any digital journey is a clear customer focus that originates from the CEO.

Simon Haldrup,
former CDO, Danske Bank

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The transformation has to be driven by the CEO, but it is also important to ensure the support of a strong board – preferably with cross competences spanning services and technology.

Klaus Hulse, CEO, SimCorp

¹ Please see Heidrick Consulting, "Digital acceleration: The right C-suite expertise", January 2019

DIGITAL ACCELERATION IS A MATTER OF MATURITY

LEVEL OF ACCELERATION



1
DIGITALLY EMBARKING



2
DIGITALLY EVOLVING



3
DIGITALLY STEADY



4
DIGITALLY ADVANCING



5
DIGITALLY ACCELERATING

STAGE OF MATURITY



A IN THE EARLY DAYS OF DIGITAL

DIGITALLY EMBARKING AND EVOLVING ORGANIZATIONS

Characteristics:

- Disconnected efforts around digital transformation

Main tasks to prioritize:

KICKSTARTING THE JOURNEY

- Analyze trends and innovators inside and outside your industry to evaluate and define the digital advantage for your business
- Insist that the digital journey is customer-driven and define key elements to digitize the current business
- Assess digital innovation capabilities and potential derailers in your organization – people as well as culture
- Plan how best to foster agility throughout the organization – you must build a culture that supports interdisciplinarity and risk-taking



B IN THE VACUUM

DIGITALLY STEADY ORGANIZATIONS

Characteristics:

- Growing proliferation of digital – silos are challenged
- Momentum on digitizing the current business

Main tasks to prioritize:

RESET TO MOVE ON

- Assess whether or not the CDO profile is still the best fit to take the transformation to the next level
- Map out the progress of maturing digitally – the assessment must show clear signs that the organization is adopting an agile mindset
- Plan how to structure your efforts: Standardization and the integration of digital into core functions is key going forward



C TRULY DIGITAL

DIGITALLY ADVANCING AND ACCELERATING ORGANIZATIONS

Characteristics:

- Integrated, data-driven and omnichannel experiences
- Successful digital execution and digital innovation

Main tasks to prioritize:

ACCELERATION

- Insist on continuously developing the culture around agility
- Revisit the strategy; Has your progress outrun your strategy? Do you need new milestones?
- Establish strategic and investment-focused decision-making processes around digital innovations
- Look outside your organization and seek strategic partners to help foster a broader ecosystem for your company's product development and innovation

THE ROAD TO DIGITAL

Let's take a closer look at the defining traits of companies that are getting started, those wanting to take it to the next level as well as those that manage to accelerate.





THE EARLY DAYS: KICKSTARTING THE JOURNEY

Companies in the early stages of their digital journey often struggle to find ways to get started. It has to do with much more than competences as both legacy and culture contribute to defining the possibilities.

What we find in most companies at this stage is that digital efforts are classic and often centered around the classical CIO and IT department. One of the most decisive factors in terms of developing the organization's digital maturity has to do with altering it in ways that make digital ever present across units and silos in your organization. In doing so, the starting point must be customer-centric meaning that digital must be a means to improve services and offerings to customers.

For companies to get there often takes a shift in culture and courage to make the investments needed.

QUESTIONS YOU NEED TO ADDRESS

The CEO and the chairman must decide how best to lay out the cornerstones for the digital transformation. Above all, we have found that this calls for a willingness to invest in the digital journey without a clear end-point in sight. It has to do with agile leadership, which is very different from the

classic approach to strategy and business case led investments.

In sum, agility can be defined by two basic characteristics. First, by interdisciplinarity meaning that agility fundamentally challenges silos. And secondly by the acceptance of loss of control. Being agile means that you do not necessarily know the end-product and that you cannot plan a process from A-Z.

Sometimes you will have to do with knowing what happens from A to B. That entails a willingness to take risks. You may fail, but the important thing is to fail fast, learn from your mistakes, and move on.



In the early stages you must prioritize speed and agility higher than standardization and alignment knowing that it might very well turn into an issue as you mature digitally.

Morten Hübbe, CEO, Tryg

Companies, looking to improve digital maturity in order to accelerate, must assess four basic parameters before deciding on the appropriate organizational set up:

- Analyze trends and innovators inside and outside your industry to evaluate and define the digital advantage for your business.
- Insist that the digital journey is customer-driven and define key elements to digitize the current business.
- Assess digital innovation capabilities and potential barriers in your organization – people as well as culture.
- Plan how best to foster agility throughout the organization – you must build a culture that supports interdisciplinarity and risk-taking.



THE EARLY DAYS: ORGANIZING FOR SUCCESS

As the organization's culture is often not ready to fully embrace digital endeavors, a digital hub set-up works well at this stage. The hub set up includes cross-functional teams that work in shorter sprints and, as such, can constantly test, fail and adapt. The hub can be more or less integrated into the organization; however, it must be given the mandate to experiment, innovate and "shake things up."

An important prerequisite for future success is making sure that the necessary links are established between the hub and the core business units.

THE CHAIRMAN & BOARD

The chairman and the board must understand and acknowledge the digital opportunities and embrace a new risk profile in terms of investments to get the digital journey started. Often there will be no business case, only a digital vision.

THE CEO

The CEO must have the support of the board and a clear ambition in terms of being digital. The most successful transformations are led by CEOs that early on are courageous in communicating their digital vision and, furthermore, understand the need for cultural change.

THE CDO

At this stage it is crucial to appoint a dedicated digital leader such as a CDO.

Hiring an external profile might help the organization take off faster, however, hiring internally ensures a deeper anchoring within the business.

Either way, the profile needed is best described as an evangelist. The evangelist has a proven track-record in driving innovation projects and has an entrepreneurial mindset.

Successful CDOs are characterized by a low personal ego - not to be confused with low ambition or drive! They succeed in ensuring broad acceptance across the organization allowing for the digital journey to take off.



IN THE VACUUM: RESET TO MOVE ON

As organizations become more digitally steady the proliferation of digital grows.

A digitally steady organization experiences momentum with digitizing their current business. This also means that the organizational hub set up will be challenged as digital becomes more and more integrated into functions across the organization.

The early stage of the digital journey is about experimenting. But taking it to the next level demands that important decisions be made – decisions that will challenge both the CDO as well as the organizational set up.

QUESTIONS YOU NEED TO ADDRESS

Digitally steady organizations often find themselves in the vacuum meaning that they need to shift gears and mature even further in order to fully accelerate.

At this stage it is important to ask the following questions:

- Is the CDO profile still the best fit to take the transformation to the next level?
- How far have you come in terms of digital maturity? The assessment must show clear signs that the organization is adopting an agile mindset.
- How will you structure your efforts going forward? If the early stages have been successful, you might find that you have initiated too many disparate initiatives. Moving ahead the ambition is to build long-term digital advantage.
- How can you accelerate your innovation by seeking strategic partners to help foster a broader eco-system for your company's product development?

The CDO is a temporary role and to be successful the right profile must understand that the job is to build capabilities in others – not to drive personal ambition.

Fredrik Östbye, CDO, Grundfos



IN THE VACUUM: ORGANIZING FOR SUCCESS

It is now that the groundwork for ways in which digital can be integrated fully into the core business must be laid.

To put it shortly, digitally steady organizations must insist on asking themselves how their digital ventures might drive business. This often calls for reevaluating both the digital profile as well as the organizational set up.

While the hub works well for getting started, the question for digitally steady organizations is how best to integrate the digital efforts into the core business units of the organization to further accelerate transformations.

THE CHAIRMAN & BOARD

The chairman and the board must be aware that the vacuum is the most difficult stage. To move past it, the board must push for digital results, e.g. new products, new services or new business models. Consequently, we find that at this stage successful boards need a high level of digital competencies (as least two board members). Some even appoint a digital committee within the board.

THE CEO

What we often find at this stage is that the CEO essentially becomes the CDO since digital must be fully integrated into the strategy while ownership is distributed to the relevant business units.

Consequently, at this stage, the CEO is crucial in securing momentum around the digital transformation as roles and competences shift.

THE CDO

Successful CDOs often make themselves redundant simply because a new profile is needed to integrate the moonshot projects and other efforts put in place by the evangelist. 18-24 months is, in fact, not an unusual lifetime for a CDO.



TRULY DIGITAL: ACCELERATION

Digitally advanced organizations have managed to get out of the vacuum and integrate digital fully into their core businesses. In practice this means that digital has become a natural part of all functions across the value chain. The main prerequisite here is the cultural transformation where digital is enabled by an agile mindset throughout the organization.

QUESTIONS YOU NEED TO ADDRESS

The important task at this stage is to anchor digital in the core business and leadership. Digital is no longer something you do, digital is something you are. At this stage, all leaders must have a digital acumen and must focus on shaping and executing digital business innovation to fuel growth. Many of the organizations interviewed have not reached this stage of digital maturity yet. However, there is a clear pattern that companies in the service industry are more digitally advanced than companies in other industries. This is only natural

as many of their products and customer journeys are already digital. In many other industries, the value chain will need to change as the organization becomes digital and transforms from selling products to selling digital services.

Companies at this stage must focus on:

- Continuously developing the culture around agility.
- Revisiting the strategy; Has your progress outrun your strategy? Do you need new milestones?
- Establishing strategic and investment-focused decision-making processes around digital innovations.



The board needs to set the level of digital ambition, but only the CEO can drive the transformation.

Jimmy Maymann, Chairman
of the Board, TV2



TRULY DIGITAL: ORGANIZING FOR SUCCESS

Many digitally advanced organizations realize that while the evangelist was necessary to kickstart an organizational journey, the latter stages call for orchestration, standardization and integration.

At this stage digital must be distributed throughout business units and executive functions rather than be anchored in a single unit or singled out as the sole responsibility of a CDO.

We are already seeing new executive functions such as Chief Product & Innovation Officer and Chief Customer Officer in some of the most digitally mature organizations.

HR must also be an essential support at this stage, driving the cultural transformation forward. To our surprise, however, we have not come across many HR units that play an active part in driving the cultural transformations needed.

THE CHAIRMAN & BOARD

As already stated, digitally advancing and accelerating companies succeed in integrating digital into their core businesses. No matter what, this must be fostered by dedication from top management. The chairman must have digital experience to support the CEO and the leadership team.

THE CEO

The CEO must pivot on the organizational changes needed to deliver successful digital execution; from organizational structures to the execution of new business models and capabilities needed.

THE CDO (has left the building)

As the CDO has often left the building prior to or during this stage, the orchestration is often carried out by a digital leadership-team spanning the following power triangle:

- Digital platforms and technology (CTO or CIO)
- Digital products and services (Business units or Product Management)
- Commercialization (Sales & Marketing)

ORGANIZATIONS THAT SUCCEED: FOUR DEFINING TRAITS

While there is no blueprint for digital acceleration, our interviews show that four factors are crucial no matter how digitally mature the organization is.

#1 THE CEO IS KEY

The CEO must be the digital leader. The days when digital efforts were anchored in the IT departments are over. No matter the organizational set up and maturity, the CEO is paramount to ensuring success. This does not mean that the CEO is involved on a day-to-day basis, but top management is central in outlining the strategic direction, aligning efforts and building momentum. To succeed, the CEO must be backed by a digitally competent board with an appetite to invest in digital, despite the risk of uncertainty.

#3 AGILITY IS EVERYTHING

Agility is talk of the town at the moment, and for good reason. Agility is crucial to digital success. An agile organization is much like an organism. It breaks down organizational silos and emphasizes cross-functional teamwork with flexible resourcing. Most importantly, agile organizations are not afraid to fail and dare to take risks. The perimeter of the organization, furthermore, includes new eco-systems and strategic partnerships to foster continuous digital innovation.

#2 WINNERS ARE CUSTOMER-DRIVEN

Some companies focus simply on digitalization as a means of optimization. However, the companies that are most successful in transforming themselves digitally are customer-driven in their efforts. The customer must be the epicenter of digital; focusing innovation around customer experiences, new digital products/services and new business models.

#4 DIGITAL IS ABOUT CULTURE

The most successful digital transformations build on an ability to unlock the value of data. But this does not mean that digital is IT driven. In fact, digital is much more than new technology. Digital is a human mindset that shapes the way we innovate and the way we develop services. To be truly digital, data must be integrated into the business and the digital ownership must be anchored broadly across the leadership team.

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